

AR79



CONSOLIDATED
ANNUAL
REPORT
1967

Electronics for Automation since 1945

ELECTRONIC ASSOCIATES OF CANADA LIMITED

OFFICERS & DIRECTORS

Eric W. Leaver	President & Director
George R. Mounce	Vice-President, Secretary-Treasurer & Director
Harold G. Meisner	Director
Jack J. Brown	Director
Norman Buchanan	Director

EXECUTIVE STAFF

Bruce W. Smith	Vice-President, Marketing
Bernard E. Stapley	Manager, Customer Services
Clare H. Fraser	Manager, Manufacturing & Plant
H. Jack Wolf	Manager, Accounting

Bank:	Bank of Montreal, Toronto.
Auditors:	Robert W. Adams & Company, Toronto.
Solicitors:	Wahn, Mayer, Smith, Creber, Lyons, Torrance & Stevenson, Toronto.
Transfer Agents:	Montreal Trust Co., Montreal and Toronto.
Trustee:	Royal Trust Co., Montreal and Toronto.
Plant:	Willowdale (Toronto), Ontario.

ELECTRONIC AUTOMATION SYSTEMS INC.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

OFFICERS & DIRECTORS

Eric W. Leaver	President & Director
George R. Mounce	Senior Vice-President & Director
Nelson Graves, Jr.	Secretary & Director

EXECUTIVE STAFF

Bruce W. Smith	Vice-President - Marketing
Clare H. Fraser	Vice-President and Manager of Manufacturing
Bernard E. Stapley	Manager, Customer Services
H. Jack Wolf	Manager, Accounting

Bank:	Manufacturers and Traders Trust Co., Buffalo.
Auditors:	Price, Waterhouse Co., Buffalo.
Solicitors:	Hodgson, Russ, Andrews and Co., Buffalo.
Plant:	Town of Grand Island, New York.

ELECTRONIC AUTOMATION SYSTEMS LTD.

(wholly-owned subsidiary of Electronic Associates of Canada Ltd.)

OFFICERS & DIRECTORS

Eric W. Leaver	Director
George R. Mounce	Director
Patrick W. Boyle	Director (Managing)

Bank:	Barclays Bank.
Auditors:	Burnett, Swayne & Co.
Solicitors:	Albert P. Halberstam, M.A., L.L.B., (CANTAB).

March 8th, 1968.

TO THE SHAREHOLDERS:

Your Company has made considerable progress in 1967. The massive efforts made in previous years in relation to building an organization, a plant, products and customer services, began taking effect in 1966 and made enormous improvements in our visible performance in 1967.

Sales rose again in 1967 for the fifth straight year. This time the gain was 26% bringing the gross revenues close to 2.2 million dollars.

Profitable operation was re-established by an acceleration of the trend reported last year that made E.A.S. profitable at that time. This trend has now carried the consolidated operations well into the black with a profit of 25¢ per share after taxes, a return of 7.7% after taxes on sales which is very good for our industry.

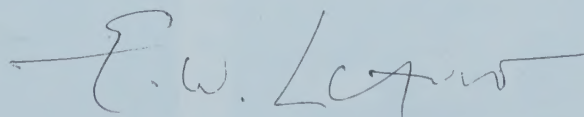
During the year, we built up our customer services department and negotiated a number of important manufacturing licenses with top U.S. companies, both in the paper manufacturing and paper machinery businesses. We expect these products will add materially to our sales volume and profit. We shipped our largest system to date for the world's largest on-machine coater, operated by the world's largest paper company. It is working satisfactorily, as indeed is every system we have installed.

We entered 1968 with the largest backlog in our history, and have on order the largest and most sophisticated system that we have ever built. We plan to double the E.A.S. plant in Grand Island this spring to accommodate our expanding business.

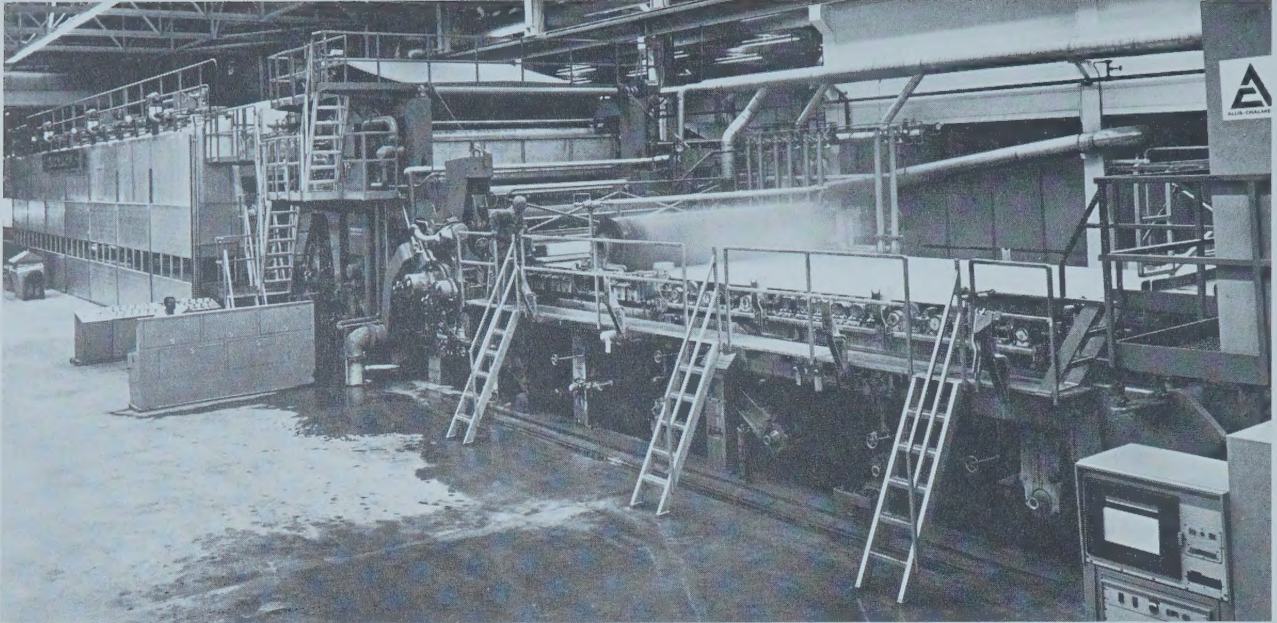
The success of the Company is due to the acceptance of our products and services by our customers, many of whom have now reordered several times. The acceptance by our customers is due to the fine work done by our Sales, Engineering, Production, Customer Services, and indeed every department of our Companies. My thanks and I am sure yours, goes to them for a job well done.

As for the future, we believe that it will still require our every effort by all of us at EAC/EAS to continue to progress in this highly competitive and sophisticated field. We pledge that effort, and look forward to further growth and progress in 1968 and the years ahead.

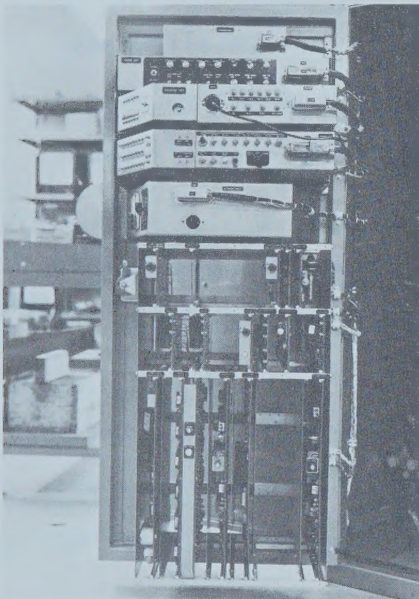
Yours sincerely,

A handwritten signature in dark ink, appearing to read "E. W. Leaver". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eric W. Leaver,
President.



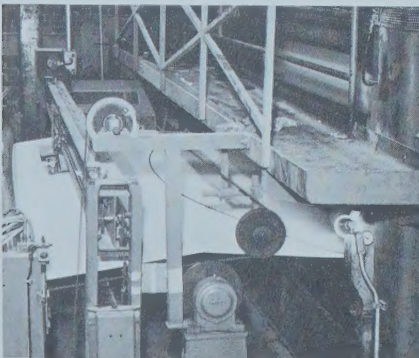
Wet End Cabinet Display of EAS Betameter Aquatel System at the Port Edwards, Wisconsin Mill of the Nekoosa-Edwards Paper Company. (Photos Courtesy of Allis-Chalmers, Milwaukee, Wisconsin.)



Detailed View of System in Plant in Check Out Phase.



Items in Production at EAS Inc. Plant, Grand Island, New York.



O' Frame, Aquatel, Betameter and Caliper Basis Weight Measuring System on Machine at Allied Paper Corp., Jackson, Alabama.



The Port Edwards Mill of Nekoosa-Edwards Paper Company, Port Edwards, Wisconsin is the Home of Some of Your Equipment. (Photo Courtesy, Nekoosa-Edwards Paper Co., Port Edwards, Wisconsin.)

ELECTRONIC ASSOCIATES OF CANADA LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1967

(With comparative figures for the Year 1966)

	<u>1967</u>	<u>1966</u>
Sales, servicing and other operating revenues	\$2,154,040	\$1,708,829
Deduct		
Cost of products and services sold	\$1,452,588	\$1,317,638
Selling expenses	156,987	198,311
Administrative and general expenses	201,698	170,924
Amortization of deferred charges	67	9,410
Discount and interest on long-term debt	<u>44,258</u>	<u>34,406</u>
	\$1,855,598	\$1,730,689
INCOME OR (LOSS) before income taxes	\$ 298,442	\$ (21,860)
Income Taxes		
Before reduction due to tax credits	\$ 193,991	\$ 14,542
Tax credits, Note 7	<u>(69,360)</u>	<u>(14,542)</u>
	\$ 124,631	\$ -
NET INCOME OR (LOSS)	\$ 173,811	\$ (21,860)
Earnings per Share	.25	-
The above costs, expenses and operating results include the following charges		
Directors and Executive officers' remuneration	\$ 33,440	\$ 30,810
Depreciation	15,466	12,972

CONSOLIDATED STATEMENT OF DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1967

(With comparative figures for the Year 1966)

	<u>1967</u>	<u>1966</u>
Balance at beginning of year	\$ 183,929	\$ 162,069
Net income or (loss) for the year	<u>173,811</u>	<u>(21,860)</u>
Balance at end of year	\$ 10,118	\$ 183,929

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1967

(With comparative figures for the Year 1966)

SOURCE OF FUNDS		
Non-cash expenses deducted in determining net income for the year	<u>1967</u>	<u>1966</u>
- Depreciation	\$ 15,466	\$ 12,972
- Amortization of deferred charges	67	9,410
- Amortization of development costs	31,381	31,415
- Amortization of debenture discount	<u>4,550</u>	<u>-</u>
	\$ 51,464	\$ 53,797
Net income	173,811	-
Issues of long-term debt	174,400	112,000
Issues of common shares	<u>28,750</u>	<u>53,828</u>
	\$428,425	\$219,625
APPLICATION OF FUNDS		
Net loss	\$ -	\$ 21,860
Acquisition of fixed assets, net	52,594	3,010
Increase in deferred charges	120	7,642
Reduction of long-term debt	<u>150,401</u>	<u>9,068</u>
	\$203,115	\$ 41,580
INCREASE IN WORKING CAPITAL	\$225,310	\$178,045
Working capital at beginning of year	<u>322,174</u>	<u>144,129</u>
Working capital at end of year	\$547,484	\$322,174

The Notes to the Consolidated Financial Statements on page 6 are an integral part of this statement.

**ELECTRONIC ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1967

(With comparative figures as at December 31, 1966)

	<u>ASSETS</u>		
	1967	1966	
CURRENT ASSETS			CURRENT LIABILITIES
Cash	\$ 132,995	\$ 7,710	Owing to bank, Note
Accounts receivable, trade	515,271	466,235	Accounts payable, trade
Inventories at the lower of cost or net realizable value	520,122	334,330	Advances from customers
Other receivables and prepaid items	<u>14,342</u>	<u>13,888</u>	Current portion of Income taxes payable
	<u>\$1,182,730</u>	<u>\$ 822,163</u>	Other payables and
FIXED ASSETS			
Property, plant and equipment, at cost	\$ 329,760	\$ 278,374	LONG-TERM DEBT, Note
Less accumulated depreciation	<u>100,271</u>	<u>86,013</u>	
	<u>\$ 229,489</u>	<u>\$ 192,361</u>	Total
DEFERRED CHARGES AND OTHER ASSETS			
Development costs, Note 2	\$ 62,761	\$ 94,142	
Discount on issue of 5% sinking fund mortgage debentures, Series A	18,200	22,750	COMMON SHARES
Deferred charges, Note 3	25,491	25,438	Authorized
Goodwill	8,022	8,022	750,000 shares of
Patents, copyrights and trademarks	1	1	Issued and Paid
Licenses and permits	<u>1</u>	<u>1</u>	
	<u>\$ 114,476</u>	<u>\$ 150,354</u>	1967 1966
			653,828 600,000
			<u>50,000</u> <u>53,828</u>
			<u>703,828</u> <u>653,828</u>
			DEFICIT
			DONATED CAPITAL
	<u>\$1,526,695</u>	<u>\$1,164,878</u>	

SIGNED ON BEHALF OF THE BOARD

E.W. LEAVER, Director

G.R. MOUNCE, Director

The Notes to the Consolidated Financial Statements

OF CANADA LIMITED
COMPANIES

AUDITORS' REPORT

LIABILITIES

	1967	1966
	\$ 30,000	\$ 106,659
	214,128	222,330
	44,092	51,061
g-term debt, Note 5	150,806	8,953
rued items	124,631	
	<u>71,589</u>	<u>110,986</u>
	\$ 635,246	\$ 499,989
	<u>589,397</u>	<u>565,398</u>
abilities	<u>\$1,224,643</u>	<u>\$1,065,387</u>

SHAREHOLDERS' EQUITY

par value		
es at	\$ 275,331	\$ 221,503
es issued during the year at	<u>28,750</u>	<u>53,828</u>
Total issued and paid	\$ 304,081	\$ 275,331
	(10,118)	(183,929)
	<u>8,089</u>	<u>8,089</u>
	\$ 302,052	\$ 99,491
	<u>\$1,526,695</u>	<u>\$1,164,878</u>

TO THE SHAREHOLDERS
ELECTRONIC ASSOCIATES OF CANADA LIMITED

We have examined the consolidated balance sheet of Electronic Associates of Canada Limited and subsidiary companies as at December 31, 1967, and the consolidated statements of income, deficit and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the English subsidiary company.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, deficit and source and application of funds present fairly the financial position of the company and subsidiaries as at December 31, 1967, and the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on the basis consistent with that of the preceding year.

Respectfully submitted,

ROBERT W. ADAMS & COMPANY

Chartered Accountants.

Toronto, Ontario,
February 29, 1968.

ents on page 6 are an integral part of this statement.

ELECTRONIC ASSOCIATES OF CANADA LIMITED AND SUBSIDIARY COMPANIES

NOTES 1 TO 8 TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1967

1. BASIS OF CONSOLIDATION AND EXCHANGE TRANSLATION

- (a) The subsidiary companies consolidated in the financial statements are (i) Electronic Automation Systems, Inc., Grand Island, New York, a wholly-owned non-resident company, (ii) Electronic Automation Systems Ltd., London, England, a wholly-owned non-resident company, presently non-operating, and (iii) Electronic Automation Systems Canada Limited, Willowdale, Ontario, a wholly-owned resident company, presently non-operating.
- (b) The financial statements of the wholly-owned non-resident subsidiary companies have been converted into Canadian dollars as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the end of the period; fixed assets, deferred charges and depreciation provisions on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates during the period.

2. DEFERRED DEVELOPMENT COSTS - \$62,761

\$31,381 has been included in the cost of products sold during 1967. In the opinion of management, the company has on hand and can reasonably anticipate receiving sufficient volume of profitable orders, over the next two years, to permit the amortization of the balance of these costs.

3. DEFERRED CHARGES - \$25,491

Incorporation Costs and Pre-Operating Expenses

U.S. subsidiary company (after current year's write off)	\$ 2,333
English subsidiary company	7,612
Canadian subsidiary company	624
Corporate re-organization costs of parent company	<u>14,922</u>
	<u>\$25,491</u>

4. OWING TO BANK - \$30,000

The bank loan is secured by a registered general assignment of the parent company's accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

5. CURRENT PORTION OF LONG-TERM DEBT - \$150,806

Included is an amount of \$97,500.00 providing for a sinking fund payment due May 1, 1968. The sinking fund provisions in the trust deed are ambiguous and, in the opinion of management, the payment of \$97,500.00 should be reduced to \$32,500.00.

6. LONG-TERM DEBT (LESS CURRENT PORTION) - \$589,397

Electronic Associates of Canada Limited (Parent)

5% Sinking fund mortgage debentures, Series A due May 1, 1975	\$325,000	
6% Second floating charge convertible debentures, due December 31, 1971	113,000	
6% First mortgage	56,000	
	<u>\$494,000</u>	
Less current portion, Note 5	97,500	\$396,500

Electronic Automation Systems, Inc. (Subsidiary)

7% Promissory note	\$173,400	
6% First mortgage due March, 1969	42,821	
2 1/4 % Second mortgage due September, 1976	22,860	
6% Third mortgage due September, 1969	7,122	
	<u>\$246,203</u>	
Less current portion	53,306	192,897
Total		<u>\$589,397</u>

(a) 5% Sinking Fund Mortgage Debentures, Series A: (due May 1, 1975)

- (i) Interest is payable half-yearly on May 1 and November 1. The payments of principal to the trustee of the sinking fund are due May 1 each year, and in accordance with provisions in the Indenture, pertaining to earnings, a payment is required May 1, 1968.
- (ii) These debentures are secured under and pursuant to the Indenture which provides that it constitutes: (1) a fixed and specific first pledge on all of the outstanding capital stock of the company's subsidiary, Electronic Automation Systems, Inc.; (2) a fixed and specific mortgage, pledge or charge on the company's lands, buildings, fixed plant, fixed machinery and fixed equipment (subject, however, to the first mortgage bearing interest at the rate of 6% per annum on which there is now owing \$56,000 for principal); and (3) a first floating charge on the undertaking and assets of the company not specifically mortgaged or already assigned.

(b) 6% Second Floating Charge Convertible Debentures: (due December 31, 1971)

- (i) Interest is payable half yearly on June 30 and December 31.
- (ii) These debentures are secured by a second floating charge on the undertaking and all the property and assets of the company.
- (iii) These debentures, at the option of the holder and prior to the earlier of December 31, 1971 or the date of prepayment, may be converted into common shares without nominal or par value in the capital stock of the company at the rate of 1,000 of such shares for each \$1,000 principal amount of debenture so converted.

(c) 6% First Mortgage

The term of this mortgage has expired, but with the consent of the mortgagee has been allowed to stand.

(d) 7% Promissory Note

- (i) This promissory note is covered by an agreement with the lender providing for a \$200,000.00 U.S. line of credit. The agreement provides that the outstanding balance can be renewed on an annual basis through 1971.
- (ii) Management anticipates that \$40,000.00 U.S. of the present balance will be repaid in 1968.
- (iii) The loan is secured by an assignment of the U.S. subsidiary company's trade accounts receivable and inventories.

7. INCOME TAX CREDITS

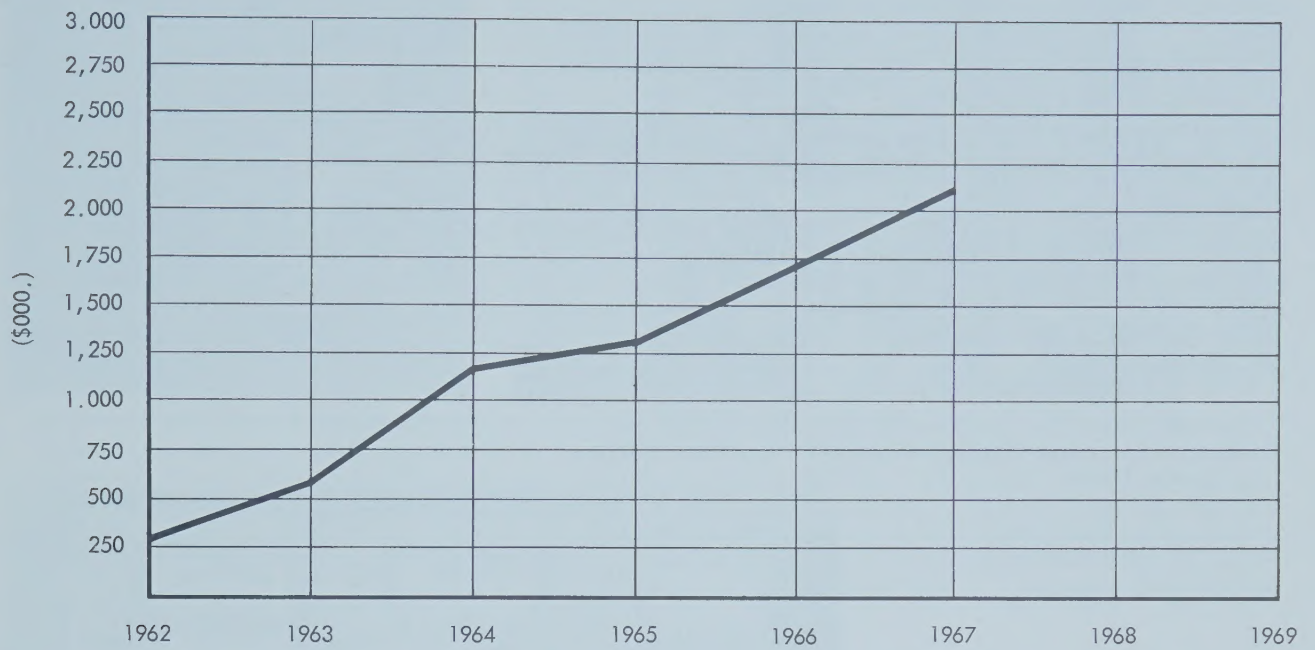
The tax credits shown for 1967 and 1966 represent tax reductions resulting from the carry-forward of prior years' losses in the U.S. subsidiary company and investment tax credits.

The income tax credits and related income tax for 1966 have been restated to conform to the presentation adopted in 1967.

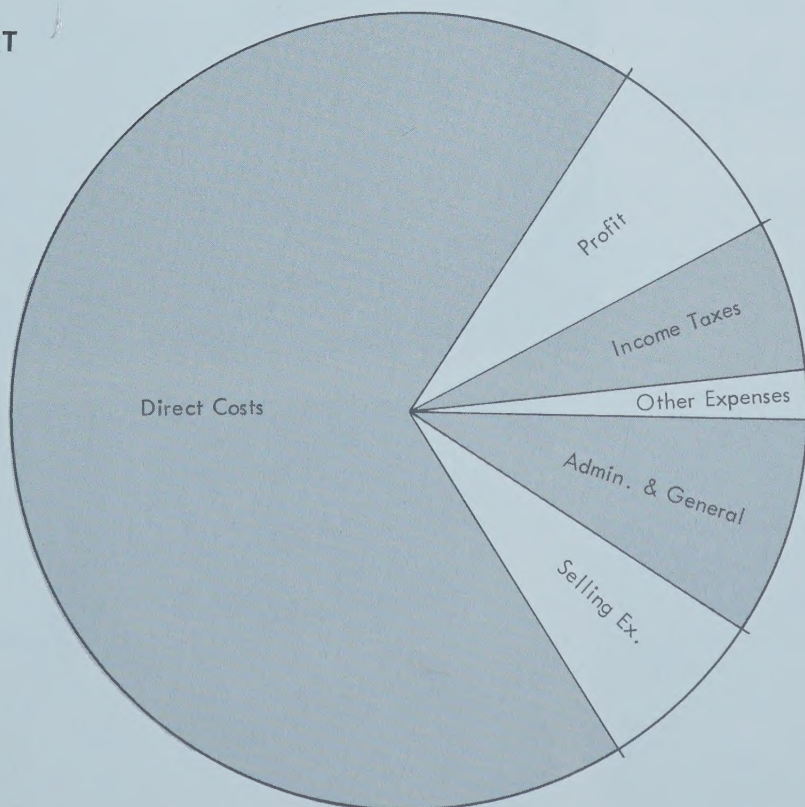
8. GENERAL

The U.S. subsidiary company is planning an estimated \$85,000.00 U.S. addition to their present plant facilities, the financing for which is currently being arranged.

CONSOLIDATED NET SALES



OPERATION CHART





More and More Your Company is Concentrating on International Trade. Equipment has been Shipped to Several Countries. Presently Negotiations are Under Way With the Export-Import Bank in Washington, D.C. for Financing Arrangements on Major Equipments to Europe. The Photograph Shows a Shipment Going to Holland.



Computer Integration is Rapidly Becoming an Important Phase of our Equipment.

New Solid State Equipment Developed by Your Company. This System was Supplied to the World's Largest Publication Grade Paper Machine.



The Gigatel[®], a new High Level Moisture Gage.



The Britel[®] Shown on a Pulp Washer for Continuous Brightness Measurement. Your Company has Exclusive Rights for Manufacturing and distribution.

(Photo Courtesy International Paper Company).

ELECTRONIC ASSOCIATES OF CANADA LIMITED AND SUBSIDIARY COMPANIES

OUTLOOK

Although there has been evidence of the tightening of the financial belt by all major paper manufacturers, the paper industry as a whole has a tremendous momentum particularly with major expansions planned over a 2 and 3 year program. Thus there can be overexpansion in both pulp production and newsprint production, yet major commitments for both paper and pulp machines continues and will proceed through 1968 and '69. There is one obvious implication that the big get bigger, and the small get smaller, and this is most evident in the sizes of paper machines which are presently now being committed and forecast. For example recently the President of the Beloit Corporation, Mr. Harry Moore, indicated that there was no technical reasons why 500" wide paper machines and 5000' speeds be immediately attainable should a need be developed. In the meantime they have started the world's largest publication grade machine with EAS/EAC equipment, the world's largest linerboard machines (with a competitor) and soon the world's largest newsprint machine, again with EAS/EAC systems.

With the larger machines, almost invariably, there has been extensive utilization of on-line process control equipment, and also forecasted requirements for computer interfacing. With the increasing emphasis on computer technology, there is also an increasing requirement for on-line sensing capabilities. In this area EAS/EAC has looked carefully at vertical integration in the paper industry proceeding with the addition of an on-line air permeability system for the dry end, (a Consolidated Papers Inc. license), the on-line microwave moisture gauge at the wet end (a Beloit Corporation license) and preceding back into the pulp operations with the on-line pulp brightness tester (the International Paper Co. license). In each of these cases we are presenting a new measurement which is important in measuring a process characteristic and meeting a quality control specification.

It is interesting to note that with the advanced technologies of measurement, many measurements which were necessarily derived five years ago, are now immediately available. For example, wet end moistures which were only obtainable by either measuring flows and doing a wet end balance, or by a subtraction procedure from a total mass measurement at the wet end and the fibre from the dry end is now directly and accurately measurable with on-line microwave techniques. Therefore it might be possible to consider that the technology of measurements is in some cases supplanting the need for computer control hence the small or middle sized paper manufacturing organization has now tools available which can provide a major benefit without a total computer program.

The concept of the total computer program may also be subject to review in some instances with possible incorporation of small digital computers, i.e. the "Volkswagon" of the computer business, to handle process control rather than an entire manufacturing system.

The present trend in our activities involving vertical expansion of product line and a more detailed knowledge of the paper making process, has focused attention on an expanding group within our Company, The Customers Services Department. It is interesting to note that our systems have become more and more reliable and the application of automatic control to both moisture and basis weight, has become much more an accepted practice. Despite this trend to improved reliability, there are more and more demands on Customer Services to provide a continuing relationship with our customers. Presently we have developed an efficient liaison between our customer, the engineering, the manufacturing and the services group, such that supervision of installation and start-up proceeds very smoothly, with a minimum of time between receipt of the equipment and full-time utilization by the manufacturing identity, and, of course, a minimum expenditure in labor costs. Yet we find that many of our customers are desirous of post-installation assistance, sometimes referred to as "software". Contractual agreements can take the form of a Technical Resident Contract, either full-time or part-time, or a demand services basis where a per diem rate is established. In any case there is a definite requirement which EAS/EAC are meeting with their expanding application and services group to provide a human interface between the new technology and the paper-making process. Thus when we proceed with our customer with advanced technologies to define "the struggle for uniformity", we and the customer must be prepared for a continuing association.

We forecast an increasing acceptance of on-line process control equipment, a widening number of sensors such as we have added to our existing programs, and perhaps most important, the provision of the human interface, be it with closer process control or computer programs.

B.W. Smith,
Vice President Marketing

SUBSIDIARIES

Electronic Automation Systems Inc., Grand Island, New York.
Electronic Automation Systems Ltd., London, England.
Electronic Automation Systems Canada Ltd., Toronto, Canada.

E.A.C. & E.A.S. REPRESENTATIVES

Montreal, Quebec.	Portland, Oregon.
Vancouver, B.C.	Atlanta, Georgia.
Boston, Massachusetts.	Chicago, Illinois.
Mobile, Alabama.	West Point, Virginia.
Appleton, Wisconsin.	Salem, New Hampshire.

AGENTS

Port Credit, Ontario.	San Francisco, California.
Morristown, New Jersey.	Melbourne, Australia.
Los Angeles, California.	Tokyo, Japan.

Willowdale, Ontario: (Area Code 416) Phones 223-4220
223-4221
223-4222
(Area Code 716) 856-0044

Cable "ELECTA"

Contacts -	Vice-President - Marketing	- Bruce W. Smith
	Manager - Customer Services	- Bern E. Stapley

Grand Island, New York: Phone 773-7525 (Area Code 716)

Cable "EASINC"

Contacts -	Vice-President and Manager of Manufacturing	- Clare H. Fraser
	Senior Systems Engineer	- G.J. Leighton

PATENTS, TRADEMARKS, EXCLUSIVE MANUFACTURING RIGHTS

E.A.C. and E.A.S. are the owners of more than sixty patents and trademarks in nine countries.

E.A.C. and E.A.S. are licensors and licensees of patents in Canada, the United States and Mexico.

We have exclusive manufacturing rights for precision paper caliper gauge developed by Consolidated Papers Inc. of Wisconsin Rapids, Wisconsin.

We have exclusive manufacturing rights for the Paper Machine Monitoring System developed by the Oxford Paper Company, West Carrollton, Ohio.

E.A.C. and E.A.S. have exclusive manufacturing rights for the uranium ore sorters, the colour ore sorter and the Wate sorters from Ore Sorters (Canada) Ltd. and Material Separators Inc.

E.A.C. and E.A.S. have exclusive manufacturing rights for the Porotel (Consolidated Papers Inc.), Gigatel (high level moisture gage from the Beloit Corporation) and Britel (Pulp Brightness meter from the International Paper Company).